

Before the
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting –
Proposal Ten

Docket No. RM2015-3

INITIAL COMMENTS OF THE PUBLIC REPRESENTATIVE
(November 26, 2014)

I. INTRODUCTION

Pursuant to 39 CFR 3050.11, the Postal Service filed a petition requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles for use in periodic reporting.¹ In Order No. 2240, the Commission established the above referenced docket, appointed the undersigned Public Representative, and established a period for comments by interested persons.² The Public Representative hereby provides comments in response to Order No. 2240 concerning Proposal Ten.

After reviewing the Postal Service's petition, the Public Representative filed a Motion for Issuance of Information Request to obtain additional information to facilitate Commission review and evaluation of Proposal Ten.³ Subsequently, Chairman's Information Request (CHIR) No. 1 was issued seeking clarification of several aspects of

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), November 3, 2014 (Petition). The Petition was accompanied by public and nonpublic Excel files.

² Order No. 2240, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal 10), November 5, 2014 (Order No. 2240).

³ Public Representative Motion for Issuance of Information Request, November 7, 2014.

the Postal Service's petition.⁴ The Postal Service provided its response on November 25, 2014.⁵

Based upon a review of Proposal Ten and the response to CHIR No. 1, the Public Representative concludes that the Postal Service failed to explain the causes of the significantly higher productive values for loading and unloading tasks reported in the 2014 study compared to the 2009 study. Moreover, the Postal Service does not explain whether the higher productivity values represent permanent changes in loading and unloading tasks. Given the absence of information on the causes of the significantly higher productivity values, the Public Representative cannot recommend Commission approval of Proposal Ten at this time. To acquire the necessary information, Public Representative suggests that the Commission schedule a technical conference to address the outstanding issues presented in Proposal Ten.

II. BACKGROUND

A. Parcel Mail Processing Cost and Standard Mail Destination Entry Cost Models

Prior to Docket No. R2006-1, there was no formal cost model for the processing of Standard Mail flats and parcels. At that time, flats and parcels were charged "nonletter" prices, and some parcels were also charged a residual shape surcharge.⁶ Instead, the Postal Service relied on an informal cost analysis that estimated the additional mail processing costs required to process parcels and "not flat-machinable" (NFM) pieces.

In Docket No. R2006-1, the Postal Service proposed separate and distinct prices for Standard Mail flats and parcels, and a new classification for NFM pieces. In response to these changes, the Commission directed that the Postal Service develop "reliable cost data for these categories and make the necessary adjustments to

⁴ Chairman's Information Request No. 1, November 19, 2014 (CHIR No. 1).

⁵ Response of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 1, November 25, 2014.

⁶ Docket No. RM2010-12, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposal Three – Eight), September 8, 2010, Proposal Seven at 3.

discounts to reflect 100 percent or less of the avoided costs.” FY 2008 ACD at 70. The Postal Service subsequently conducted a field study in 2009.

In Docket No. RM2010-12, Proposal Seven, the Postal Service proposed a Standard Mail parcel/NFM mail processing cost model based upon data from the 2009 field study. The Standard Mail parcel/NFM model contains separate cost estimates for the machinable, irregular, and NFM price categories by presort and entry level. The model cost estimates are used to “de-average” an overall mail processing cost estimate by shape into price category cost estimates for machinable, irregular, and NFM parcels. Proposal Seven at 3.

In its comments on Proposal Seven, the Public Representative expressed concern about the accuracy of the model given the large standard deviation associated with the 2009 field study data.⁷ Despite these concerns, the Commission approved Proposal Seven.⁸

In Docket No. RM2011-6, Proposal Thirteen, the Postal Service proposed a new Parcel Select/Parcel Return Service (PRS) mail processing cost model.⁹ The proposed Parcel Select/PRS cost model relies on the 2009 field study data introduced in Docket No. RM2010-12, Proposal Seven. The model uses the Standard Mail parcel model as a starting point to develop model cost estimates, which are then used to “de-average” an overall mail processing cost estimate for parcels into price category cost estimates.

Like its comments in response to Proposal Seven, the Public Representative expressed concern with the small sample size and high standard deviation of the 2009 field study data used in the Parcel Select/PRS model.¹⁰ While agreeing with the Public

⁷ Public Representative Comments in Response to Order No. 534, Docket No. RM2010-12, October 8, 2010, at 11-12.

⁸ Order No. 658, Order on Analytical Principles Used in Periodic Reporting (Proposals Three through Eight), January 28, 2011.

⁹ Docket No. RM2011-6, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytic Principles (Proposals Thirteen – Fourteen), December 22, 2010.

¹⁰ Docket No. RM2011-6, Comments of the Public Representative in Response to Order No. 626, February 3, 2011 at 2.

Representative that the Postal Service should work to improve the quality of its productivity data in the future, the Commission approved Proposal Thirteen.¹¹

In Docket No. RM2014-6, Proposal Seven, the Postal Service proposed modifications to both the Standard Mail parcel/NFM mail processing model and the Standard Mail destination entry cost model.¹² The modifications included correction of input errors, consolidation of Excel workbooks, addition of a new parcel mail characteristics profile, elimination of obsolete input data, and the incorporation of more recent productivity data. As part of its proposal, the Postal Service also replaced the methods time measurement (MTM) predetermined time system data with the productivity data derived from 2009 field study.

The Public Representative again expressed concerns about use of the 2009 field study data given the significant mail processing network changes since the study was conducted.

The Commission approved Proposal Seven, concluding that the proposed modifications improved the mechanics and accuracy of both models and that the 2009 productivity values are the best-available. The Commission also approved the use of the same productivity values in Media Mail/Library Mail and Parcel Select/Parcel Return Service processing cost models. Nevertheless, the Commission stated that “the Postal Service should investigate ways to update its productivity values to ensure that the values best represent its mail processing operations.”¹³

B. Proposal Ten

Proposal Ten uses productivity data from a new field study (2014 field study) to update cost estimates for the Standard Mail parcel/NFM mail processing cost model, the Media Mail – Library Mail mail processing cost model, the Parcel Select/Parcel Return Service mail processing cost model, and the Standard Mail destination entry

¹¹ Docket No. RM2011-6, Order Concerning Analytical Principles for Periodic Reporting (Proposals Thirteen and Fourteen), April 28, 2011 (Order No. 719).

¹² Docket No. RM2014-6, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Three Through Eight), June 20, 2014 (Petition, Proposal Seven)

¹³ Order No. 2180, Order on Analytical Principles Used in Periodic Reporting (Proposals Three through Eight), September 10, 2014.

cost model.¹⁴ In addition to productivity data, the 2014 field study also provides data on postal arrival and dispatch profiles and mail piece dimension by mail type. These data include container types that arrive from and are dispatched to processing and distribution centers (P&DCs) by network distribution centers (NDCs), and the estimated fullness of each container.

The Postal Service states that most of the productivity values developed in the 2014 field study represents container movement tasks. Petition at 4. Productivity values for container movement tasks, which are performed at auxiliary service facilities (ASFs), were developed for the following: load rolling stock, load pallet / pallet box, unload rolling stock, and unload pallet / pallet box. A new productivity value was developed for the manual barcoding of parcels rejected by the Parcel Sorting Machines (PSM), an operation performed at NDCs.

The Postal Service states that the 2014 field study resulted in productivity values for loading and unloading tasks that were “significantly higher” than those measured in the 2009 study. Petition at 5. It further observes that “[s]ome of the change could be due to the activation of the NDCs. One focus of the NDC activation process was the timely loading and unloading of trucks. In addition, postal vehicle driver and highway contract drivers were both regularly observed assisting mail handlers with the loading and unloading of trucks during the 2014 study, but were not observed doing so during the 2009 study. The time drivers spent assisting mail handlers was not incorporated into the productivity estimates in the 2014 study because those costs are not defined as mail processing costs.” *Id.*

III. COMMENTS

The Postal Service’s 2014 field study represents an improvement in the development of cost estimates for parcel mail processing costing models and the Standard Mail Destination Entry Cost model. The Postal Service relies on statistically sound data to update the productivity values derived from the models; however, new concerns arise regarding the validity of the significantly higher productivity values. Based on the Postal Service’s Petition and Response to the Chairman’s Information

¹⁴ Petition at 5. The Parcel Select/Parcel Return Service mail processing cost model is filed under seal.

Request No. 1, the Public Representative cannot recommend the Commission's approval of Proposal Ten.

The Postal Service does not explain what caused the significantly higher productivity values in the 2014 field study. More importantly, the Postal Service does not provide evidence that these significantly higher productivity values will continue to be realized.

In its Petition, the Postal Service attributes the changes in productivity values to the activation of the NDCs where the loading and unloading of trucks are described as "timely." The Postal Service seems to attribute the timeliness of the loading and unloading of trucks to drivers' assistance. Petition at 5. However, in its response to CHIR No. 1, Question 1, the Postal Service clarifies that "drivers were not observed assisting mail handlers with the loading and unloading" at NDCs and that they were only observed assisting mail handlers at delivery units and P&DCs/P&DFs.¹⁵ The Postal Service then describes the type of assistance drivers provided to mailhandlers with respect to loading and unloading trucks. The activities described seem to be typical activities that drivers would have performed in the 2009 field study.¹⁶ However, the Postal Service states that these activities were not observed in the 2009 field study.

The Postal Service does not explain what caused drivers to change their behavior between the 2014 field study and the 2009 field study. One possibility is that drivers did not change their behavior but the 2009 study failed to report the behavior. Another possibility is that new requirements were placed on drivers pursuant to a labor agreement or a highway transportation contract to assist mailhandlers with the loading and unloading of trucks. The Postal Service does not offer any such explanation. Nor does the Postal Service clarify whether the observed driver assistance to mailhandlers is a permanent activity. If the drivers are not required to assist mailhandlers with loading and unloading of trucks, then the observed driver assistance may be a chance occurrence and not a permanent activity. It is not possible to judge how frequently drivers will continue to offer their assistance. Without evidence to support the

¹⁵ Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request No. 1, November 25, 2014 (Response CHIR No. 1)

¹⁶ The driver activity of placing, securing and removing containers from trucks seems consistent with general and reasonable safety procedures of truck drivers.

occurrence of ongoing assistance from drivers, it is not possible to conclude that the “significantly higher” productivity values will continue to be realized.

Consequently, if the significantly higher productivity values in the 2014 Study are ephemeral then they should not be relied upon in estimating costs. The nature of the productivity values in the 2014 Study, that is, whether they represent a permanent change in behavior, is a deciding factor in determining whether Proposal Ten satisfies applicable legal and regulatory requirements.

III. CONCLUSION

The Public Representative concludes that the record lacks sufficient data to justify the proposal and suggests that the Commission refrain from granting approval of Proposal Ten until more relevant information is included in the record.

Given the complexities of the differences between the field studies and the notable changes in productivity values, the Public Representative suggests that the Commission schedule a technical conference to address the outstanding issues of Proposal Ten.

Respectfully Submitted,

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